

EXHIBIT 22

Test Series 24

National Association of Securities Dealers, Inc.

GENERAL SECURITIES PRINCIPAL
QUALIFICATION EXAMINATION
(TEST SERIES 24)

STUDY OUTLINE

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9513 Key West Avenue, Rockville, MD 20850

STUDY OUTLINE

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. GENERAL SECURITIES PRINCIPAL QUALIFICATION EXAMINATION

The NASD General Securities Principal Qualification Examination (Test Series 24) is designed to test a candidate's knowledge of the rules and statutory provisions applicable to the management of a general securities broker/dealer. This study outline has been prepared to assist member firms in preparing candidates to sit for the examination. The outline is designed for use by course developers in the preparation of training material, for training directors in the development of lecture notes and seminar programs and for use by candidates themselves, both to structure their study and as a final review checklist prior to sitting for the examination. The General Securities Principal Qualification Examination and this study outline are composed of five general areas of supervision, which are listed below with the approximate percentage point value assigned to each area.

General Area	Percentage Point Value
1.0 Supervision of Investment Banking Activities	20%
2.0 Supervision of Trading and Market-Making Activities	20%
3.0 Supervision of Brokerage Office Operations	22%
4.0 Sales Supervision, General Supervision of Employees, Regulatory Framework of NASD	26%
5.0 Compliance With Financial Responsibility Rules	12%

Detail on the content of each of these general areas of supervision is included in the text of the study outline which follows

Structure of the Examination and Grading Procedures

The General Securities Principal Qualification Examination is composed of 125 multiple-choice questions covering all of the material in the following outline in accordance with the subject matter distribution shown above. A maximum of three hours testing time is allowed for candidates to complete the examination. The examination is graded on a 125 point system. Each multiple choice question is worth one

point. No credit is given for incorrect answers to these questions. The passing grade is equal to 70% of the total number of questions on the examination. Candidates will be required, therefore, to answer correctly 88 of the 125 questions on the General Securities Principal Qualification Examination in order to receive a passing grade. The results will identify the percentage performance of the candidate in each of the five general areas of the examination.

The examination is a closed book test and candidates will not be permitted to use any reference material during their testing session. Scratch paper will be provided to a candidate by the test administrator, but must be returned to the administrator at the end of the testing session. Electronic calculators may be used provided such devices have an independent power source, operate silently, no print mechanisms, and no alphabetical keys or programmable memory.

Questions used in the examination will be updated to reflect the most current interpretations of the rules and regulations on which they are based. Questions on new rules will be added to the pool of questions for this examination within a reasonable time period after their effective dates. Questions on rescinded rules will be promptly deleted from the pool of questions.

Below is a list of reference materials that may be used as a source-material starting point for course developers in preparing training programs. Much of the reference material overlaps topics covered in other references. It is, therefore, not necessary, to obtain each reference listed. In addition, non-member commercial training vendors offer packaged study courses specifically designed for this registration category. These vendors are often listed in local yellow page directories and advertise in securities industry periodicals.

Copies of this outline and registration applications may be obtained from NASD MediaSource or any of the NASD District Offices.

NASD MediaSource[®]
9513 Key West Avenue
Rockville, MD 20850
(301) 590-6578

Throughout the outline, New York Stock Exchange rules have been cross-referenced to the appropriate NASD and SEC rules. In instances where the rules differ, explanatory notes highlight the requirements of

each rule. The Exchange rules listed in Section 2.2 will be tested. However, the rules referenced in other parts of the outline are provided for information purposes only. Test questions on the examination will be asked in terms of NASD or SEC rules.

At the end of this outline there are five sample questions written in the various formats used in the Series 24 test questions. These samples do not reflect the difficulty level of the test questions or the subject matter distribution of the test itself. Their use is to familiarize candidates with the types of multiple choice question formats used in the Series 24.

Reference Materials

Appeal Securities Act Handbook
Appeal Printing Company
130 Cedar Street
New York, NY

Code of Federal Regulations
Title 17—Commodity and Securities Exchanges
Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402

Federal Securities Law Reporter
Volumes 2 and 3
Commerce Clearing House, Inc.
4025 West Peterson Avenue
Chicago, IL 60646

*National Association of Securities
Dealers, Inc. Manual*
Commerce Clearing House, Inc.

4025 West Peterson Avenue
Chicago, IL 60646

New York Stock Exchange, Inc. Manual
Commerce Clearing House, Inc.
4025 West Peterson Avenue
Chicago, IL 60646

Regulation of Brokers, Dealers and Securities Markets
N. Wolfson, R.M. Phillips, and T.A. Russo
Warren Gorham & Lamont Inc.
210 South Street
Boston, MA 02111

*Securities Credit Transactions
Regulations X, G, T and U*
Board of Governors of the Federal Reserve System
Constitution Avenue at 20th Street, NW
Washington, DC

Securities Law Handbook
Harold Bloomenthal
Clark Boardman Callahan
375 Hudson Street
New York, NY 10014

Securities Regulation
Volume 2
Prentice-Hall, Inc.
Englewood Cliffs, NY 07632

1.0

SUPERVISION OF INVESTMENT BANKING ACTIVITIES

1.1	New Issue Market	Indications of interest
1.1.1	Underwriting Corporate Securities (negotiated)	Final or statutory prospectus
		Opening and closing the books
1.1.1.1	Types of offerings	1.1.1.12 Shelf distributions
	Primary	Issuers may register to sell limited
	Secondary	amounts of securities on a delayed
1.1.1.2	Investigation of financing proposals	basis for up to two years
	Preliminary study	Allows issuers and investment bankers
	Letter of intent	the flexibility of matching financing
	General examination	needs to market conditions
	Industry data	1.1.1.13 Venture capital
	Operational data	1.1.1.14 Mergers and acquisitions
	Management and employee relations	Risk arbitrage
	Financial data	Leveraged buy-outs
	Research, product development	1.1.1.15 Initial public offerings
	and expansion	
	Legal examination	1.2 Securities Act of 1933 and SEC Rules
1.1.1.3	Formation of the underwriting syndicate	Thereunder
	Role of syndicate manager	1.2.1 Section 2—Definitions under the Act
	Agreement among underwriters	1.2.1.1 Distribution of information during an
	Due diligence meeting	underwriting
	Blue skying the issue	Rule 134—Communications not
1.1.1.4	Types of underwriting commitments	deemed a prospectus
	Firm commitment	Rule 137—Definition of "offers",
	Competitive bid or negotiated	"participates", or "participation" in
	Stand-by commitment	Section 2(11) in relation to certain
	All or none	publications by persons independent of
	Best efforts	participants in a distribution
	Mini-Max	Rule 138—Definition of "offer for sale"
	Market-out clauses	and "offer to sell" in Sections 2(10) and
1.1.1.5	Pricing of the issue	5(c) in relation to certain publications
	Determined on effective date of	Rule 144—Persons deemed not to be
	registration	engaged in a distribution and therefore
	Indication of interest (underwriter's	not underwriters
	book)	Definitions
	Factors affecting price of issue	Conditions to be met
	Consequences of sticky offerings	Current public information
1.1.1.6	Underwriters compensation	Holding period for restricted securities
	Components of underwriters spread	Limitation on amount of securities
	Forms of compensation	sold
	Stand-by commitments	Manner of sale
1.1.1.7	Formation of the selling group	Brokers' transactions
	Handled by managing underwriter	Notice of proposed sale
	Selling group agreement	Bona fide intention to sell
	Liabilities of selling group members	Non-exclusive rule
	vs. underwriters' liabilities	Termination of certain restrictions
1.1.1.8	Stabilization	on sale of restricted securities by
1.1.1.9	Syndicate penalty bid	persons other than affiliates
	Purpose	Rule 145—Reclassification of
	Denial of spread or concession on	securities, mergers, consolidations
	transaction	and acquisitions of assets
	Penalty fees	Transactions within the rule
1.1.1.10	Hot issues and overallocation	Communications not deemed a
	Limitations on overselling	"prospectus" or "offer to sell"
	Pro-rata distribution of managing	Persons and parties deemed to be
	underwriter's short position losses	underwriters
	among co-underwriters	Resale provisions for persons and
		parties deemed to be underwriters
1.1.1.11	The public offering	Definition of "person"
	Preliminary prospectus	Form S-4 requirement
	Tombstone advertisements	1.2.2 Section 3—Exempted Securities
		1.2.2.1 Rule 147—"Part of an issue", "person"

	resident" and "doing business within" for purposes of Section 3(a)(11)	1.2.3.5.6	Rule 506—Exemption for limited offers and sales without regard to dollar amount of offering
	Transactions covered		Exemption
	Part of an issue		Conditions to be met
	Nature of the issuer		General conditions
	Offerees and purchasers, person resident		Specific conditions
	Limitation of resales		Limitation on number of purchasers
	Precautions against interstate offers and sales		Nature of purchasers
1.2.2.2	Regulation A—General exemptions	1.2.3.6	Rule 174—Delivery of prospectus by dealers; exemptions under Section 4(3) of the Act
	Rule 251—Definition of terms		
	Rule 254—Amount of securities exempted	1.2.4	Section 5—Prohibitions Relating to Interstate Commerce and the Mails
	Rule 256—Filing and use of the offering circular		
	Rule 258—Sales material to be filed	1.2.4.1	Rule 135—Notice of certain proposed offerings
1.2.3	Section 4—Exempted Transactions	1.2.4.2	Rule 135A—Generic advertising
1.2.3.1	Transactions by any person other than an issuer, underwriter or dealer	1.2.4.3	Rule 144A—Private resales of securities to institutions
1.2.3.2	Transactions by an issuer not involving any public offering	1.2.4.4	Regulation S—Rules governing offers and sales made outside the U.S. without registration under the Securities Act of 1933
1.2.3.3	Transactions by a dealer		Rule 901—General statement
1.2.3.4	Broker's transactions		Rule 902—Definitions
1.2.3.5	Regulation D—Rules governing the limited offer and sale of securities without registration under the Securities Act of 1933		Rule 903—Offers or sales of securities by the issuer, a distributor, and of their respective affiliates, conditions relating to specific securities
1.2.3.5.1	Rule 501—Definitions and terms used in Regulation D		Rule 904—Resales
	Accredited investor	1.2.4.5	Rule 153A—Definition of "preceded by a prospectus" as used in Section 5(b)(2) of the Act, in relation to certain transactions requiring approval of security holders
	Affiliate		
	Aggregate offering price	1.2.5	Section 6—Registration of Securities and Signing of Registration Statement
	Business combination		
	Calculation of number of purchasers	1.2.5.1	Regulation C—Registration
	Executive officer		Rule 415—Delayed or continuous offering and sale of securities (shelf registration)
	Purchaser representative		Form S-1 filing requirement
1.2.3.5.2	Rule 502—General conditions to be met		Rule 427—Contents of prospectuses used after nine months
	Integration		Rule 430—Prospectus for use prior to effective date
	Information requirements		Rule 460—Distribution of preliminary prospectus
	Limitations on manner of offering	1.2.6	Section 7—Information Required in Registration Statement
	Limitations on resale	1.2.7	Section 8—Taking Effect of Registration Statements
1.2.3.5.3	Rule 503—Filing of notice of sale		
	Filing Form D	1.2.7.1	Amendments to registration statements prior to and after effective date
1.2.3.5.4	Rule 504—Exemption for limited offers and sales of securities not exceeding \$1,000,000	1.2.7.2	Stop orders
	Exemption		Form S-18 filing requirement
	Conditions to be met	1.2.8	Section 10—Information Required in Prospectus
	General conditions		
	Specific conditions	1.2.8.1	Prospectus used more than nine months
	Limitation on aggregate offering price	1.2.8.2	Summary prospectus
1.2.3.5.5	Rule 505—Exemption for limited offers and sales of securities not exceeding \$5,000,000	1.2.9	Section 11—Civil Liabilities on Account of False Registration Statement
	Exemption		
	Conditions to be met		
	General conditions		
	Specific conditions		
	Limitation on aggregate offering price		
	Limitation on number of purchasers		
	Disqualifications		

1.2.10	Section 12—Civil Liabilities Arising in Connection with Prospectuses and Communications	1.3.3.3	Rule 13d-1—Filing of Schedules 13D and 13G
1.2.11	Section 15—Liability of Controlling Persons	1.3.3.4	Rule 13e-3—Going private transactions by certain issuers or their affiliates Schedule 13E-3 filing requirement
1.2.12	Section 17—Fraudulent Interstate Transactions	1.3.3.5	Rule 13e-4—Tender offers by issuers Schedule 13E-4 filing requirement
1.2.13	Section 23—Unlawful representations	1.3.4	Regulation E
1.3	Securities Exchange Act of 1934 and SEC Rules Thereunder	1.3.4.1	Rule 14e-1—Unlawful tender offer practices
1.3.1	Section 10—Regulation of the Use of Manipulative and Deceptive Devices	1.3.4.2	Rule 14e-3—Transactions in securities on the basis of material, non-public information in the context of tender offers
1.3.1.1	Section 10(b)—Use or employment of manipulative or deceptive devices	1.3.4.3	Rule 14e-4—Prohibited transactions in connection with partial tender offers
1.3.1.1.1	Rule 10b-2—Solicitation of purchases on an exchange to facilitate distribution of securities	1.3.5	Section 15—Registration and Regulation of Brokers and Dealers
1.3.1.1.2	Rule 10b-6—Prohibition of trading by persons interested in a distribution	1.3.5.1	Section 15(c)(1)—Manipulative, deceptive or fraudulent devices or contrivances
1.3.1.1.3	Rule 10b-7—Stabilizing to facilitate a distribution	1.3.5.1.1	Rule 15c1-8—Sales at the market
	Scope of rule	1.3.5.1.2	Rule 15c1-9—Use of pro forma balance sheets
	Definitions	1.3.5.2	Section 15(c)(2)—Fraudulent acts or practices and fictitious quotations
	Transactions must be necessary	1.3.5.2.1	Rule 15c2-4—Transmission or maintenance of payments received in connection with underwritings
	Priority must be granted	1.3.5.2.2	Rule 15c2-8—Delivery of prospectus Preliminary prospectus Final prospectus Delivery to associated persons Delivery to other broker/dealers by managing underwriter
	Control of stabilizing	1.3.5.3	Section 15(d)—Reports of registrants under the Securities Act of 1933
	Stabilizing at prices resulting from unlawful activity	1.3.5.3.1	Rule 15d-11—Current reports of Form 8-K
	Stabilizing prohibited in offerings at the market	1.3.5.3.2	Rule 15d-13—Quarterly reports on Form 10-Q
	Stabilizing securities traded in more than one market	1.3.5.3.3	Rule 15d-17—Reports on Form 10-C by issuers of securities quoted on the Nasdaq interdealer quotation system
	Entering stabilizing bid on an exchange prior to opening	1.3.6	Section 16—Reports of Directors, Officers and Principal Stockholders
	Stabilizing levels	1.3.6.1	Rule 16a-1—Filing of statement
	Disclosure of stabilizing	1.3.6.1.1	Form 3—Initial statement of beneficial ownership of securities
	Recordkeeping requirements	1.3.6.1.2	Form 4—Statement of changes in beneficial ownership of securities
	Limitation of liability	1.3.6.1.3	Form 10C—Filing requirements
	Exempted securities	1.3.7	Section 17—Accounts and records, Reports, Examinations of Exchanges, Members and Others
	Exempted transactions	1.3.7.1	Section 17(a)(1)—General requirements for the maintenance of records and report filing as prescribed by SEC
1.3.1.1.4	Rule 10b-8—Distribution through rights	1.3.7.1.1	Rule 17a-2—Recordkeeping requirements relating to stabilizing activities Scope of rule Definitions Records required to be maintained by manager
1.3.1.1.5	Rule 10b-9—Prohibited representations in connection with certain offerings		
1.3.1.1.6	Rule 10b-13—Prohibiting other purchases during tender offer or exchange offer		
1.3.1.1.7	Rule 10b-18—Purchases of certain equity securities by the issuer and others		
1.3.1.1.8	Rule 10b-21—Short selling in connection with a public offering		
1.3.2	Section 12—Registration Requirements for Securities		
1.3.2.1	Section 12(a)—Exchange listed securities		
1.3.2.2	Section 12(g)—Registration of issuers engaged in interstate commerce		
1.3.2.3	Section 12(j)—Suspension or revocation of registration		
1.3.2.4	Section 12(k)—Suspension on trading		
1.3.3	Section 13—Periodical and Other Reports		
1.3.3.1	Rule 13a-11—Current reports on Form 8-K		
1.3.3.2	Rule 13a-13—Quarterly reports in Form 10-Q		

	Notification of manager		Power of the Board of Governors
1.4	National Association of Securities Dealers—Regulations	1.4.3	Code of Procedure
1.4.1	Schedules to the By-Laws	1.4.3.1	Article XII—Code of procedure for corporate financing and direct participation program matters
1.4.1.1	Schedule E—Distribution of securities of members and affiliates		Purpose
	Definitions		Application by aggrieved member
	Participation in distribution of securities of member or affiliate		Application for review
	Suitability		Notice of hearing
	Discretionary accounts		Hearing committee and procedure
	Sales to employees		Requirement for written determination
			Review by committee of Board
			Nature of determination
1.4.2	Article III—Rules of Fair Practice	1.4.4	Uniform Practice Code
1.4.2.1	Section 1—Business conduct of members	1.4.4.1	Section 66—Settlement of syndicate accounts
	Free-riding and withholding		Definitions
	Introduction		Final settlement
	Interpretation		
	Scope and intent of interpretation	1.4.4.2	Section 67—Settlement of underwritten public offerings
	Sales by issuers in conversion offerings		
	Definitions	1.5	Investment Company Act of 1940 and SEC Rules Thereunder
	Conditions for exemption	1.5.1	Section 3—Definition of Investment Company
	Sales to members, associated persons of members and certain related persons	1.5.2	Section 4—Classification of Investment Companies
	Sales to other restricted persons	1.5.2.1	Unit investment trust
1.4.2.2	Section 7—Disclosure of price in selling agreements	1.5.2.2	Management company
1.4.2.3	Section 8—Securities taken in trade	1.5.3	Section 5—Subclassification of Management Companies
	Definition	1.5.3.1	Open-end company
	Compliance with requirements relating to fair market price of securities taken in trade	1.5.3.2	Closed-end company
	Maintenance of records of bid and ask quotations	1.5.3.3	Diversified company
1.4.2.4	Section 16—Offerings “at the market”	1.5.3.4	Non-diversified company
1.4.2.5	Section 17—Solicitation of purchases on an exchange to facilitate a distribution of securities	1.5.4	Section 8—Registration of Investment Companies
1.4.2.6	Section 23—Net prices to persons not in investment banking or securities business	1.5.4.1	Section 8(b)—Filing requirements for investment companies
1.4.2.7	Section 24—Selling concessions		Form N-1A—Registration statement of open-end management investment companies
	Discounts or allowances must be paid only to broker/dealer for services rendered in distribution	1.5.5	Section 12—Functions and Activities of Investment Companies
	Definition of “bona fide research”	1.5.5.1	Prohibitions
	Required written agreements		Purchases on margin
	Quarterly reports to be filed		Participation in joint trading accounts
	Maintenance of records for 24 months		Short sales
1.4.2.8	Section 34—Direct Participation Programs	1.5.5.2	Rule 12b-1—Distribution of shares by registered open-end management investment company
	Appendix F		Disclosure of payment for distribution of funds from assets
	Application of Appendix F		Statement of additional information
	Definitions	1.5.6	Section 13—Changes in Investment Policy
	Suitability	1.5.6.1	Majority vote of shareholders
	Disclosure		Change of subclassification
	Organization and offering expenses		Borrowing; issuing or underwriting securities; purchasing or selling real estate; making loans
	Participation in rollups		Deviation from investment or other policy
1.4.2.9	Section 36—Transactions with related persons		
1.4.2.10	Section 44—The corporate financing rule—Underwriting terms and arrangements		
	Definitions		
	Filing requirements		
	Underwriting compensation and arrangements		

	Change in nature of business		22(d) for certain registered separate accounts
1.5.7	Section 15—Investment Advisory and Underwriting contracts	1.5.10.3	Section 22(e)—Suspension of rights of redemption
1.5.7.1	Investment advisors		Rule 22e-1—Exemption from Section 22(e) during annuity payment period of variable annuity contracts participation in certain registered separate accounts
1.5.7.2	Underwriter		
1.5.7.3	Approval by board of directors	1.5.11	Section 30—Periodic and Other Reports: Reports of Affiliated Persons
1.5.8	Section 16—Changes in Board of Directors: Provisions Relative to Strict Trusts	1.5.11.1	Rule 30a-1—Annual reports (requirement to file)
1.5.8.1	Election by shareholders	1.5.11.2	Rule 30d-1—Reports to stockholders of management companies
1.5.9	Section 19—Dividends		
1.5.9.1	Accumulated undistributed net income	1.6	Trust Indenture Act of 1939
1.5.9.2	Current net income	1.6.1	Purpose
1.5.9.3	Statement disclosing source of payment	1.6.2	Necessity of trustee to safeguard the rights of investors in registered debt obligations
	Rule 19a-1—Written statement to accompany dividend payments by management companies	1.6.3	Identification of rights and powers of trustee
1.5.9.4	Distribution of long-term capital gains	1.6.4	Full disclosure of information in bond indentures
	Rule 19b-1—Frequency of distribution of capital gains	1.6.5	Participation of trustees in the preparation of indentures
1.5.10	Section 22—Distribution, Redemption and Re-Purchase of Redeemable Securities	1.7	Uniform State Law
1.5.10.1	Section 22(c)—Regulation of underwriters and dealers by Commission	1.7.1	Definitions Under the Act
	Rule 22c-1—Pricing of redeemable securities for distribution, redemption and re-purchase	1.7.1.1	Issuer
1.5.10.2	Section 22(d)—Persons to and through whom redeemable securities may be sold (offer securities at a price based on NAV)	1.7.1.2	Security
	Rule 22d-1—Exemption from Section 22(d) to permit sales of redeemable securities at prices which reflect net sales loads	1.7.2	Registration of Securities
	Rule 22-d2—Exemption from Section	1.7.2.1	Registration requirements
		1.7.2.2	Types of securities registration
		1.7.2.3	Exempt securities
		1.7.2.4	Exempt transactions

2.0

SUPERVISION OF TRADING AND MARKET MAKING ACTIVITIES

2.1	OTC Markets		market makers
2.1.1	Overview of the market		Total assets
2.1.1.1	Nasdaq market		Capital and surplus
	Trading in non-exchange securities in		Principal outstanding of convertible debt securities
	Non-Nasdaq OTC or Bulletin Board		Common stockholders
	Pink sheets		Publicly held shares
	Third Market		Submission of audited financial reports and documents
	Trading in exchange listed securities in OTC market	2.1.2.2.2	Maintenance requirements for continual listing
	Consolidated tape 90 second report requirement	2.1.2.2.3	Schedule D to the NASD By-Laws
	Fourth Market		Part I—Definitions
	Private transactions between institutional investors without the use of a broker/dealer		Part II—Qualification requirements for Nasdaq securities
2.1.2	The Nasdaq Stock Market		Domestic securities and Canadian securities
2.1.2.1	Types of service		Suspension or termination of inclusion of a security and exceptions to inclusion criteria
2.1.2.1.1	Level 1 service		Use of the Nasdaq system on a test basis
	Generally available through public vendors		Trading halts
	Displays highest bid and lowest ask (inside market) for each authorized security		Part XI—Procedures for access to the Nasdaq system by non-Nasdaq market makers
2.1.2.1.2	Level 2/Level 3 service	2.1.2.2.4	Nasdaq quotation publication and dissemination
	Available only to NASD approved subscribers		Schedule D to the NASD By-Laws
	Displays bid/ask quotations and quotation sizes for all registered market makers entering quotes on each authorized security		Part V—Publication and dissemination of quotations to the news media
	Enables registered market makers to enter bid/ask quotations and quotation sizes on the system, for only those securities it has been authorized to enter quotes		National Market System list
2.1.2.1.3	SelectNet	2.1.3	ADR's and Foreign Securities
	Enables registered market makers to negotiate trades, including counteroffers and broadcasts of orders to all market makers in a security	2.1.3.1	Origin and nature of ADR's
	Available only for agency or principal orders that are greater than the SOES tier size		Duties of the issuing/depository bank
	Allows market makers to execute partial orders at their discretion		Converts and distributes rights offerings
2.1.2.1.4	Automated Confirmation Transaction Service (ACT Rules)	2.1.3.2	Purpose of issuing these securities versus trading the foreign securities directly
	Primary vehicle for reporting over the-counter transactions in equity securities (Nasdaq national market, Nasdaq Small-Cap and exchange listed securities)	2.1.3.3	Shareholders' rights to demand delivery of the underlying shares
	Schedule D to the NASD By-Laws	2.1.3.4	Provides shareholders with annual balance sheet and operations statement
	Part XIII—Reporting transactions in Nasdaq Small-Cap securities	2.1.3.5	Coordination of regulatory activities with issuer's principal marketplace
2.1.2.2	Nasdaq qualifications for authorized securities	2.1.3.6	Qualification requirements of Schedule D of the NASD By-Laws
2.1.2.2.1	Listing requirements	2.1.4	Nasdaq National Market System (NMS)
	General factors (numerical values not tested)	2.1.4.1	Issuer designation criteria (general understanding, numerical values not tested)
	At least two registered and active		Minimum for:
			Annual net income
			Price per share
			Market value of publicly held shares
			Higher minimum requirements compared

	to Nasdaq inclusion for:		an exchange has suspended trading in a security
	Capital surplus		
	Number of publicly held shares	2.1.7.3	Schedule D to the NASD By-Laws
	Non-quantitative criteria		Part VII—Consolidated Quotation Service (CQS)
	Minimum of two independent directors		Normal business hours
	Maintain an audit committee		Withdrawal of quotations
	Provide shareholders with quarterly and annual reports		Voluntary termination of registration
	Solicit proxies for all shareholders' meetings		Suspension and termination of quotations by association action
	Hold annual shareholders' meeting	2.1.8	Market Maker Activities
	Execute listing agreement with NASD	2.1.8.1	Firm quotes
2.1.4.2	Schedule D of the NASD By-Laws	2.1.8.2	Subject quotes
	Part III—Designation of Nasdaq national market system security	2.1.8.3	Otherwise qualified
	Part XII—Reporting transactions in Nasdaq National Market designated securities		One-sided market
			Bid or offer wanted
2.1.5	NASD Small Order Execution System (SOES)	2.1.8.4	Stabilizing bids
2.1.5.1	SOES rules		Pre-effective bids
	Definitions		Penalty bids
2.1.5.2	SOES service enables participants to	2.1.8.5	Determination of spread
	Execute transactions of limited size in active SOES authorized securities		Financial condition of issuer
	"Lock-in" transactions by automatically sending both sides of the applicable clearing corporation for clearance and settlement		Size of issue
	Have reports of the transactions automatically forwarded to the National Market Trade Reporting System for dissemination to the public		Activity in issue
	Splitting orders		Market conditions
2.1.6	Non-Nasdaq OTC Securities		Maximum allowable spreads
2.1.6.1	Schedule H to the NASD By-Laws	2.1.8.6	Types of customer business
	Definitions		Retail
	Non-Nasdaq security		Institutional
	Non-Nasdaq reporting system	2.1.8.7	Nasdaq market makers
	Price and volume reporting		Registration requirements
	Automated submission of trade data		NASD member
2.1.6.2	OTC Bulletin Board		Minimum net capital requirements
	Allows participants to enter, update, retrieve quotation information on non-Nasdaq OTC stocks on real-time basis	2.1.8.8	Quotation requirements (general knowledge)
	Displays firm and non-firm price quotations		Continuous two-sided quotes for each security
	Displays unpriced indications of interest		Firm quotations for at least a normal unit of trading
	Displays telephone numbers of participating market makers in specified securities		Quotations reasonably related to the market
2.1.7	Consolidated Quotation Service (CQS)		Limits for maximum allowable spreads
2.1.7.1	CQS securities	2.1.8.9	Daily and monthly volume reports
	NYSE and ASE listed securities	2.1.8.10	Schedule D to the NASD By-Laws
	Certain securities listed on regional exchanges		Part VI—Requirements applicable to Nasdaq market makers
	Securities registered or admitted to unlisted trading privileges on the national exchanges		Registration as a Nasdaq market maker
2.1.7.2	CQS service		Character of quotations
	Displays bid/ask quotation sizes for CQS securities entered by exchanges and/or CQS market makers		Stabilizing bids
	A "halt" notation will be displayed when		Automated submission of trading data
			Reports
			Normal business hours
			Clearance and settlement
			Withdrawal of quotations
			Voluntary termination of registration
			Suspension and termination of quotations by Association action
			Termination of Nasdaq service
			Part VII—Consolidated Quotation Service (CQS)
			Registration as a CQS market maker
			Obligations of CQS market makers
		2.1.8.11	SOES rules
			SOES participant registration
			Participant obligations in SOES

Registration	By account
Market makers	Orders subject to SEC Rule 11a-1-T
SOES order entry firms	2.2.3.16 Rule 411—Erroneous reports
Clearance and settlement	2.2.3.17 Rule 435—Miscellaneous prohibitions
Obligation to honor system trades	Excessive trading by members
Compliance with rules and registration requirements	Successive transactions by members
Fees applicable to SOES	Manipulative operations
2.1.9 Non-Nasdaq Market Makers	Circulation of rumors
2.1.9.1 Schedule D to the NASD By-Laws	Reopening a contract
Part XI—Procedures for access to the Nasdaq system by non-Nasdaq market makers	Loans for account of non-members
2.2 Domestic and Exchange Markets	2.2.3.18 Rule 450—Restriction on giving proxies
2.2.1 Listing Criteria (general understanding, numerical values not tested)	2.2.4 Consolidated Tape Network
2.2.1.1 Minimum listing standards	2.2.4.1 Reports all executions of exchange-listed securities, regardless of where the transactions occurred
2.2.1.2 NYSE Listed Company Manual	2.2.4.2 Use of the tape for price information
2.2.2 The Auction Market	2.2.4.3 Reports of third market activity
2.2.2.1 Trading post	2.3 International Markets
2.2.2.2 Floor broker (member)	2.3.1 Nasdaq International Service Rules
2.2.2.3 Role of the specialist	Applicability
Maintains the limit order book	Definitions
"Stops" stock	Normal business hours
Agent vs. principal functions of specialist	Qualified securities
Arranges buy and sell orders at the opening of daily trading to orchestrate a balanced price	Access
2.2.2.4 Automated trading systems (DOT, PACE, AUTO, AMOS, SCOREX)	Requirements applicable to market makers
2.2.2.5 Types of orders	Automated submission of trading data
2.2.2.6 Block trading	Reports
2.2.3 New York Stock Exchange Regulations	Clearance and settlement of international transactions
2.2.3.1 Rule 60—Dissemination of quotation	Suspension and termination of quotations by NASD action
2.2.3.2 Rule 61—Recognized quotations	Termination of access
2.2.3.3 Rule 76—"Crossing" orders	Transaction reporting requirements
2.2.3.4 Rule 77—Prohibited dealings and activities	Audit trail requirements
2.2.3.5 Rule 78—Sell and buy orders coupled at same price	2.3.2 Schedule I to the NASD By-Laws—PORTAL Market Rules
2.2.3.6 Rule 92—Limitations on member trading because of customer's orders	Part I—Definitions
2.2.3.7 Rule 97—Limitations on members trading because of block positioning	Part II—Requirements applicable to PORTAL securities
2.2.3.8 Rule 104—Dealings by specialists	Part III—Requirements applicable to PORTAL dealers and PORTAL brokers
2.2.3.9 Rule 127—Block positioning	Part IV—Requirements applicable to PORTAL qualified investors
2.2.3.10 Rule 165—Marking to the market	Part V—Denial, suspension or termination procedures
2.2.3.11 Rule 175—Extension or postponement of contracts (settlement)	Part IV—PORTAL market transactions
2.2.3.12 Rule 390—Market responsibility rule	Part VII—Rules of fair practice
2.2.3.13 Rule 393—Secondary distributions (general understanding)	Part VIII—Arbitration
2.2.3.14 Rule 396—Off-floor transactions in bonds	2.3.3 International Stock Exchange—SEAQ/TOPIC/U.S. Nasdaq satellite link
"Nine bond" rule	2.3.4 Stock Exchange of Singapore (SEDAQ)/U.S. Nasdaq link
2.2.3.15 Rule 410—Records of orders	2.3.5 Directing orders through foreign affiliates for execution on foreign exchanges
Transmitted to floor	2.4 Securities Exchange Act of 1934 and SEC Rules Thereunder
Carned to floor	2.4.1 Section 3—Certain Definitions Under the Act
Cancellation	2.4.1.1 Section 3(a)(23)(A)—Definition of "clearing agency"
	2.4.1.2 Section 3(a)(38)—Definition of "market maker"

2.4.1.3	Section 3(a)(51)—Definition of "penny stock" Rule 3a51-1—Definition of penny stock	to brokers or dealers Rule 15g-5—Disclosure of compensation of associated persons in connection with penny stock transactions Rule 15g-6—Account statements for penny stock customers
2.4.1.4	Section 3(b)—Other definitions under the Act Rule 3b-1—Definition of "listed" Rule 3b-8—Definitions of "qualified OTC market maker," "qualified third market maker," and "qualified block positioner"	
2.4.2	Section 11—Trading by Members of Exchanges, Brokers and Dealers	2.5 National Association of Securities Dealers—Regulations
2.4.2.1	Rule 11-a—Regulation of floor trading	2.5.1 Rules of Fair Practice
2.4.2.2	Rule 11a1-1(T)—Transactions yielding priority, parity and precedence	2.5.1.1 Section 1—Business conduct of members Execution of retail transactions in the over-the-counter market Best execution Third party transactions
2.4.2.3	Rule 11a1-2—Transactions for certain accounts of associated persons of members	2.5.1.2 Section 4—Fair prices and commissions NASD Mark-Up Policy Interpretation General considerations Relevant factors Transactions to which the Policy is applicable Transactions to which the Policy is not applicable
2.4.2.4	Rule 11a-1-3(T)—Bona fide hedge transactions in certain securities	
2.4.2.5	Rule 11a-1-4(T)—Bond transactions on national securities exchanges	2.5.1.3 Section 5—Publication of transactions and quotations Manipulative and deceptive quotations Marking the close
2.4.2.6	Rule 11a-1-5—Transactions by registered competitive market maker and registered equity market makers	2.5.1.4 Section 6—Offers at stated prices Policy with respect to firmness of quotations
2.4.2.7	Rule 11a2-2(T)—Transactions effected by exchange members through other members	2.5.1.5 Section 41—Short sales in Nasdaq securities
2.4.3	Section 11A—National Market System for Securities	2.5.1.6 Section 42—Trading halts in Nasdaq securities
2.4.3.1	Rule 11Aa2-1—Designation of national market system securities Definitions	2.5.2 Fixed Income Pricing System Rules (FIPS rules)
2.4.3.2	Rule 11Aa3-1—Dissemination of transaction reports and last sale data with respect to transactions in reported securities	2.5.2.1 Part 1—Definitions
2.4.3.3	Rule 11Ac1-1—Dissemination of quotation for reported securities Purpose Obligations of responsible brokers and dealers Communication of quotations and quotation sizes Execution of published quotations and quotation sizes Revised quotation size Revised quotations	2.5.2.2 Part 2—Designation of securities quoted in the fixed income pricing system
2.4.4	Section 15—Registration and Regulation of Brokers and Dealers	2.5.2.3 Part 3—Quotation requirements for fixed income pricing system
2.4.4.1	Section 15(c)(2)—Fraudulent acts or practices and fictitious quotations Rule 15c2-6—Sales practice requirements for certain low priced securities Rule 15c2-7—Identification of quotations Rule 15c2-11—Initiation or resumption of quotations with specified information	2.5.2.4 Part 4—Reporting transactions in high yield bonds
2.4.4.2	Section 15(g)—Requirements for transactions in penny stocks Rule 15g-1—Exemptions for certain transactions Rule 15g-2—Risk disclosure document relating to the penny stock market Rule 15g-3—Broker or dealer disclosure of quotations and other information relating to the penny stock market Rule 15g-4—Disclosure of compensation	2.5.2.5 Part 5—Dissemination of quotation and transaction information
		2.5.2.6 Part 6—Compliance with FIPS rules and trade reporting requirements
		2.5.3 Code of Procedure
		Article IX—Procedures on grievances concerning the automated systems Section 1—Purpose Section 2—Form of application Section 3—Request for hearing Section 5—Decision Section 6—Review by the Nasdaq hearing review committee Section 7—Findings of the Nasdaq hearing review committee on review Section 8—Discretionary review by the Board Section 9—Application to Commission for review

2.5.4	Broker-to-Broker Clearing Procedures		Delayed delivery
2.5.4.1	Contract sheet		Prior to delivery date
2.5.4.2	Netted trades		Time and place of delivery
2.5.4.3	Continuous net settlement	2.5.5.12	Section 16—Units of delivery—stocks
2.5.4.4	Money settlement	2.5.5.13	Section 17—Units of delivery—bonds
2.5.4.5	Trade Acceptance & Reconciliation System (TARS)	2.5.5.14	Section 17A—Units of delivery—unit investment trust securities
2.5.4.6	OTC trade comparisons on locked-in trades	2.5.5.15	Section 18—Units of delivery—certificates of deposit for bonds
2.5.4.7	Comparison sheet or ticket	2.5.5.16	Section 19—Delivery of securities with draft attached
2.5.4.8	Regular way and when issued contract sheets	2.5.5.17	Section 20—Prior to settlement date
2.5.4.9	Firm must be member of one of the following clearing corporations which participates in TARS	2.5.5.18	Section 21—With irregularities
	National Securities Clearing Corporation	2.5.5.19	Section 26—Delivery of mutilated securities (NYSE Rules 223 and 224)
	Midwest Clearing Corporation		
	Philadelphia Clearing Corporation	2.5.5.20	Section 29—Assignments and powers of substitution; delivery of registered securities
	Pacific Clearing Corporation		
2.5.4.10	Depository Trust Company	2.5.5.21	Section 36—Certificate in name of deceased person, trustee, etc.
	Securities certificate safekeeping		
	Exchange effected by computerized bookkeeping entries	2.5.5.22	Section 46—Computation of interest (NYSE Rule 243)
2.5.4.11	Clearing funds	2.5.5.23	Section 48—Due-bills and due-bill checks (NYSE Rule 255)
	Participant contribution based on processing activity		
	Interest earned is transferred to participant	2.5.5.24	Section 49—Claims for dividends, rights, interest, etc.
2.5.5	Uniform Practice Code	2.5.5.25	Section 50—Transfer fees (NYSE Rule 182)
2.5.5.1	Section 1—Score of Uniform Practice Code	2.5.5.26	Section 51—Reclamations and rejections
2.5.5.2	Section 2—Uniform Practice committees	2.5.5.27	Section 52—Uniform reclamation form
2.5.5.3	Section 3—Definitions	2.5.5.28	Section 53—Time for delivery on reclamation and manner of settlement
2.5.5.4	Section 4—When, as and if issued/distributed contracts (NYSE Rule 63)	2.5.5.29	Section 56—Irregular delivery; transfer refused; lost or stolen securities
2.5.5.5	Section 5—Transactions in securities "ex dividend," "ex-rights," or "ex-warrants" (NYSE Rules 235 and 236)	2.5.5.30	Section 58—Marking to the market (NYSE Rules 165, 166, 168)
2.5.5.6	Section 6—Transactions "ex-interest" in bonds which are dealt in "flat"	2.5.5.31	Section 59—"Buying-in" (NYSE Rule 282)
2.5.5.7	Section 7—"Ex" liquidating payments	2.5.5.32	Section 60—"Selling-out" (NYSE Rule 283)
2.5.5.8	Section 8—Transactions in "part redeemed" bonds (NYSE Rule 193)	2.5.5.33	Section 61—Rights and warrants
2.5.5.9	Section 9—Comparisons or confirmations and "Don't Know Notices"	2.5.5.34	Section 62—CUSIP number
2.5.5.10	Section 10—Description of securities	2.5.5.35	Section 64—Acceptance and settlement of COD orders
2.5.5.11	Section 12—Delivery of securities	2.5.5.36	Section 65—Customer account transfer contracts
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	Regular way		
	Seller's option (NYSE Rule 179)	2.5.5.38	Section 69—Reconfirmation and pricing service participants
	Buyer's option		
	Contracts due on holidays or Saturdays	2.5.5.39	Section 70—Clearly erroneous trades

3.0

SUPERVISION OF BROKERAGE OFFICE OPERATIONS

3.1	Client Accounts	3.1.3.6.1	Special omnibus account for broker/ dealer subsidiary or affiliate
3.1.1	Types of Accounts	3.1.3.6.2	Introduced accounts of investment advisors' clients
3.1.1.1	Cash	3.1.3.6.3	Advisors' client account
3.1.1.2	Margin (general account)	3.1.4	Custodial Accounts under the Uniform Gifts/ Transfers to Minors Act
3.1.2	Account Documentation	3.1.4.1	Irrevocability of gift
3.1.2.1	New account form	3.1.4.2	Custodian
3.1.2.1.1	Identification data	3.1.4.2.1	Appointed by donor
3.1.2.1.2	Name and occupation of person(s) with authority to create activity in account	3.1.4.2.2	Successor custodians
	Limited authorization	3.1.4.2.3	Securities registered in name of custodian
	Full authorization	3.1.4.2.4	Legal ownership vested in minor
	Discretionary powers to broker/ dealers	3.1.4.3	Securities registered to beneficiary upon attaining majority
3.1.2.1.3	Payment/delivery and/or duplicate mailing instructions	3.1.4.4	Must be cash account—no margin
	Transfer and ship	3.1.4.5	Securities in account cannot be pledged
	Hold in "street name"	3.1.4.6	Reinvestment of cash proceeds, dividends and interest within reasonable period
	Transfer and hold in safekeeping	3.1.4.7	Rights and warrants
	Hold cash or forward cash balance on settlement date	3.1.4.7.1	Exercised if sufficient cash is in account; or
	Deliver against payment to a bank or depository	3.1.4.7.2	Liquidated at the market
	Reinvestment plan (reinvesting cash balances)	3.1.4.8	Reimbursement of expenses to custodian
1.2.3.1.4	Signature of and acceptance of account by general securities or options principal of firm	3.1.4.9	Use of custodial property for support of minor
3.1.2.2	Supplementary documentation	3.1.4.10	Maintenance of records
3.1.2.2.1	Hypothecation agreement	3.1.5	Qualified Retirement Plans
3.1.2.2.2	Loan consent agreement	3.1.5.1	Individual retirement investment account (IRA)
3.1.2.2.3	Credit agreement	3.1.5.1.1	Purpose
3.1.2.2.4	Powers of attorney—discretionary accounts	3.1.5.1.2	Contributions
3.1.2.2.5	Options agreement	3.1.5.1.3	Payout period
3.1.2.2.6	Arbitration agreement	3.1.5.1.4	Tax free rollovers
3.1.3	Customer Accounts and Documents	3.1.5.2	Keogh plans—HR-10
3.1.3.1	Individual customers	3.1.5.2.1	Purpose
3.1.3.2	Joint customers	3.1.5.2.2	Funding—annuities, mutual funds, trust accounts, savings accounts
3.1.3.3	Corporate customers	3.1.5.2.3	Contributions
3.1.3.4	Unincorporated associations (partnerships, charitable organizations, schools, churches, hospitals, investment clubs and hedge funds)	3.1.5.2.4	Payout period
3.1.3.5	Fiduciaries	3.1.5.2.5	Eligibility
3.1.3.5.1	Prohibition regarding margin accounts and grants of trading authority to others	3.1.5.3	Other types of qualified plans
3.1.3.5.2	Restrictions regarding "legal investments"	3.1.5.3.1	Corporate pension plans
3.1.3.5.3	Prudent man rules	3.1.5.3.2	Corporate deferred payment profit-sharing plans
3.1.3.5.4	Administrators of estates	3.1.5.3.3	Tax-deferred annuity plans
3.1.3.5.5	Trustees	3.1.5.3.4	401(k) plans
3.1.3.5.6	Guardians	3.1.5.3.5	Employee stock ownership plans (ESOP)
3.1.3.5.7	Receivers in bankruptcy	3.1.5.3.6	Eligible worker-owned cooperative (EWOC)
3.1.3.5.8	Committees or conservators for incompetents		
3.1.3.6	Investment advisors contracts		

3.1.5.4	ERISA		
	Pension plan regulations		when account was opened
	Disclosure requirements	3.1.8.2	Review report of execution
	Reports to employees		Check against order ticket
	Funding policies		Report execution to client
	Minimum funding standards		Report all errors immediately through appropriate firm channels
	Employers funding objectives		Check client's confirmation for accuracy
	Fiduciary requirements	3.1.8.3	Records of customer transactions
	Fiduciary standards	3.1.9	Primary Functions of Operations and Support Departments (definitional knowledge only)
	Diversification of plan investments		
	Identification of fiduciary	3.1.9.1	Order department
	Loans	3.1.9.2	Purchase and sales department
	Prohibited transactions	3.1.9.3	Margin department
	Self dealing transactions—prohibitions and exemptions	3.1.9.4	Cashiering department
	Transfer of plan assets	3.1.9.5	Dividend department
	Investment of pension plans	3.1.9.6	Proxy department
3.1.6	Non-Qualified Retirement Plans	3.1.9.7	Reorganization department
3.1.6.1	Payroll deduction plans	3.1.9.8	Stock record department
3.1.6.2	Deferred compensation plans	3.1.9.9	Controller
3.1.7	Requirements regarding accounts of deceased/incompetent persons	3.2	Extensions of Credit in the Securities Industry
3.1.7.1	Outstanding orders	3.2.1	General Margin Account
	Cancel open orders	3.2.1.1	Long accounts
	Freeze assets in account until necessary documents are obtained from administrator, executor, or conservator of estate	3.2.1.1.1	Federal margin requirements for purchases—Regulation T
3.1.7.2	Death or incompetence of a joint tenant		Initial margin requirement
	Presentation of death certificate and inheritance tax waiver, letters testamentary or other required documents before assets in account are released		Reg T excess
	Assignment by surviving/competent tenant and by the legal representative of the deceased/incompetent tenant		Withdrawing Reg T excess
3.1.7.3	Death or incompetence of tenant-in-common		Purchasing additional securities with Reg T excess
	Freeze assets and acceptance of orders until instructions are received from survivor(s) and executor, administrator, or conservator of the estate together with applicable inheritance tax waivers, letters testamentary or other required documents		Depositing securities to meet a Reg T call
3.1.7.4	Death or incompetence of a partner	3.2.1.1.2	Buying power of Reg T excess
	Required authority from surviving/competent partners before executing any further orders		Maintenance margin requirements (NASD Rules of Fair Practice-Section 30 and NYSE Rules 431 and 432)
	Follow stipulations in partnership agreement		Minimum initial equity requirement
3.1.7.5	Death or incompetence of principal on a power of attorney		Minimum maintenance requirement
	Immediate termination of power		Maintenance call
3.1.8	Transactions in Client Accounts		Meeting a maintenance call with a cash deposit
3.1.8.1	Entering an order		Meeting a maintenance call by liquidating securities
	Client identifier		Calculating the point below which a long account will incur a maintenance call
	RR identifier	3.2.1.1.3	Special memorandum account
	Originating office identifier (if applicable)		Purpose
	Security description (symbol)		Withdrawals of SMA
	Number of shares or bonds	3.2.1.1.4	Sales of long positions
	Where traded (NYSE, ASE, Nasdaq, etc.)		Sales in a properly margined account
	Action		Sales in a restricted account
	Price and qualifications		Sales in a restricted account to meet a previous Reg T call
	Type of account (cash, margin, special bond, etc.)	3.2.1.2	Withdrawals of stock from a restricted account
	Settlement instructions if not established		Short accounts
			Federal initial requirements for short sales
			Minimum equity requirement
			Calculating the point above which a short

	account will incur a maintenance call	3.2.7	Mechanics of Short Sales
	Covered short transactions	3.2.7.1	Borrowing securities
	Short-selling power		Securities held by executing broker/dealers
3.2.1.3	Mixed accounts		Borrowing securities from other broker/dealers
	Reg T excess		Borrowing securities from institutional investors
	Maintenance requirements		Lending at a premium
3.2.1.4	Margin substitutions		Lending at a rate
	Equal substitutions		
	Unequal substitutions		
	Adjusted debit balance		
3.2.2	Other Types of Securities Accounts	3.2.7.2	Lender's privileges
3.2.2.1	Cash account		Return of securities
	Arbitrage account		Marking to the market
	Omnibus account		Interest on bonds loaned
	Broker/dealer credit account		Cash dividends
	Market functions account		Stock dividends
	Nonsecurities credit account		Subscription rights
			Voting rights
3.2.3	Withdrawal of Dividend and Interest Credits	3.2.7.3	Closing the contract
3.2.4	Other Provisions of Regulation T of the Federal Reserve Board		Short against the box
			Closing purchases
3.2.4.1	Definitions	3.3	Securities Exchange Act of 1934 and SEC Rules Thereunder
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	Customer	3.3.1	Section 3—Definitions Under the Act
	Registered security	3.3.1.1	Rule 3a12-9—Exemption of certain direct participation program securities from the restrictions regarding the extending or arranging of credit under Sections 7(c) and 11(d)(1)
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	Margin security	3.3.1.2	Rule 3b-3—Definition of "short sale"
	Exempted security	3.3.2	Section 10—Regulation of the use of manipulative and deceptive devices
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3.2.4.2	Letters of credit	3.3.2.1.1	Rule 10a-1—Short sales
3.2.4.3	Contents of general account		Uptick and zero plus tick restriction
3.2.4.4	General rule		Adjustments ex-distribution
	Prompt payment		Long or short order notation
3.2.4.5	Extensions of time		Requirements for long sales
3.2.4.6	Cash accounts		Exemptions
	Prompt deposits of securities sold	3.3.2.1.2	Rule 10a-2—Requirements for covering purchases
	Prompt payment for securities purchased		Prohibitions and exemptions on loans of securities by broker/dealers to cover purchases
	Payment vs. delivery		
	Extensions of time	3.3.2.2	Section 10(b)—Use or employment of manipulative or deceptive devices
	Customer debits not exceeding \$500	3.3.2.2.1	Rule 10b-10—Confirmation of transactions
	Frozen accounts	3.3.2.2.2	Rule 10b-16—Disclosure of credit terms in margin transactions
3.2.4.7	Borrowing by broker/dealers	3.3.2.2.3	Rule 10b-17—Untimely announcements of record dates
3.2.4.8	Certain technical details	3.3.3	Section 11—Trading by Members of Exchanges, Brokers and Dealers
3.2.4.9	Miscellaneous provisions		
	Arranging for loans by others	3.3.3.1	Section 11(d)(1)—Extension of credit
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	Statement of purpose of loan	3.3.3.1.2	Rule 11d1-2—Exemption from Section 11(d)(1) for certain investment company securities held by broker/dealers as
3.2.5	Credit by Banks for the purpose of purchasing or carrying margin stocks—Regulation U of the Federal Reserve Board		
3.2.5.1	Purpose credit secured by stock		
3.2.5.2	Exceptions from general rule for broker/dealers		
3.2.5.3	OTC market maker exemption		
3.2.6	General Purpose of Other FED Credit Regulations		
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	collateral in margin accounts	3.4.1.3	Section 14—Disclosure of participation or interest in primary or secondary distribution
3.3.4	Section 15—Registration and Regulation of Brokers and Dealers	3.4.1.4	Section 15—Discretionary accounts (NYSE Rule 408)
3.3.4.1	Section 15(c)(1)—Manipulative, deceptive or fraudulent devices or contrivances	3.4.1.4.1	Excessive transactions
3.3.4.1.1	Rule 15c1-5—Disclosure of control	3.4.1.4.2	Authorization and acceptance of account
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3.3.4.1.3	Rule 15c1-7—Discretionary accounts	3.4.1.4.4	Exception
3.3.4.2	Section 15(c)(2)—Fraudulent acts or practices and fictitious quotations	3.4.1.5	Section 21—Books and records (NYSE Rules 406 and 440)
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3.4	National Association of Securities Dealers—Regulations	3.4.1.5.2	Marking of customer order tickets
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3.4.1.1.1	Third market confirmations	3.4.1.5.5	“Complaint” defined
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		3.4.1.6	Section 45—Customer account statements

4.0

**SALES SUPERVISION: GENERAL SUPERVISION
OF EMPLOYEES: REGULATORY FRAMEWORK OF NASD**

4.1	Securities Exchange Act of 1934 and SEC Rules Thereunder		Rule 15c1-3—Misrepresentation by brokers and dealers as to registration
4.1.1	Section 3—Certain Definitions Under the Act	4.1.5	Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others
4.1.1.1	Section 3(a)(10)—Definition of “security” (NYSE Rule 3)		
4.1.1.2	Section 3(a)(39)—Definition of “statutory disqualification”	4.1.5.1	Section 17(f)—Requirements with respect to missing, lost, counterfeit or stolen securities and fingerprinting of employees of broker/dealers
4.1.1.2.1	Rule 3a11-1—Definition of the term “equity security”		Rule 17f-2—Fingerprinting of securities industry personnel (general requirement)
4.1.1.2.2	Rule 3a12-2—Exemption of certain securities, the income on which is substantially guaranteed by states or political subdivisions thereof	4.2	Insider Trading Regulations
4.1.1.2.3	Rule 3b-5—Non-exempt securities issued under governmental obligations	4.2.1	Insider Trading and Securities Fraud Enforcement Act of 1988
4.1.2	Section 9—Prohibitions against manipulation of security prices	4.2.1.1	Section 3—Civil penalties of controlling persons for illegal insider trading by controlled persons
4.1.2.1	Section 9(a)(1)—Misleading appearance of active trading	4.2.1.1.1	Securities Exchange Act of 1934 Section 15(f)—Policies and procedures to be developed by broker/dealers to prevent misuse of material, non-public information
4.1.2.2	Section 9(a)(2)—Inducing purchase or sale by others		Section 21(d)—Injunctions and prosecution of offenses
4.1.2.3	Section 9(a)(3)—Dissemination of information as to rise or fall of security prices		Section 21A—Civil penalties
4.1.2.4	Section 9(a)(4)—Making false or misleading statements		Section 21A(a)—Authority to impose civil penalties
4.1.2.5	Section 9(a)(5)—Dissemination of information for consideration		Section 21A(b)—Limitations on liability
4.1.2.6	Section 9(a)(6)—Pegging, fixing or stabilizing prices		Section 21A(c)—Authority of Commission
4.1.2.7	Section 9(e)—Liability for unlawful acts or transactions		Section 21A(e)—Authority to award bounties to informants
4.1.3	Section 10—Regulation of the Use of Manipulative and Deceptive Devices		Section 21A(f)—Definition of “profit gained” and “loss avoided”
4.1.3.1	Section 10(b)—Use or employment of manipulative and deceptive devices	4.2.1.1.2	Investment Advisers Act of 1940 Section 204—Annual and other reports
4.1.3.2	Rule 10b-1—Prohibitions with respect to securities exempted from registration	4.2.1.2	Section 204A—Prevention of misuse of non-public information
4.1.3.4	Rule 10b-3—Employment of manipulative and deceptive devices by brokers or dealers	4.2.1.2.1	Section 4—Increases in criminal penalties
4.1.4	Section 15—Registration and Regulation of Brokers and Dealers	4.2.1.3	Securities Exchange Act of 1934 Section 32(a)—Penalties
4.1.4.1	Section 15(a)(1)—Prohibitions relating to unregistered broker/dealers Rule 15a-6—Exemption of certain foreign brokers or dealers	4.2.1.3.1	Section 5—Liability to contemporaneous traders for insider trading
4.1.4.2	Section 15(b)(4)—Sanctions against brokers or dealers		Securities Exchange Act of 1934 Section 20A—Liability to contemporaneous traders for insider trading
4.1.4.3	Section 15(b)(6)—Sanctions for person associated with broker or dealer		Section 20A(a)—Private rights of action based on contemporaneous trading
4.1.4.4	Section 15(c)(1)—Manipulative, deceptive or fraudulent devices or contrivances Rule 15c1-1—Definitions Rule 15c1-2—Fraud and misrepresentation	4.2.2	Section 20A(b)—Limitations on liability
		4.2.2.1	Section 20A(c)—Joint and several liability for communicating
			Securities Exchange Act of 1934 and SEC Rules Thereunder
			Section 10—Regulation of the use of

manipulative and deceptive devices		and representatives	
Section 10(b)—Use or employment of manipulative and deceptive devices	4.3.2.2.3	Section 3—Ineligibility of certain persons for membership or association	
Rule 10b-5—Employment of manipulative and deceptive devices	4.3.2.2.4	Section 4—Definition of disqualification (NYSE Rule 351)	
Insider trading		Article III—Membership	
Material information	4.3.2.3	Section 1—Application for membership	
Non-public information	4.3.2.3.1	Section 3—Executive representative	
Insiders and tippees	4.3.2.3.2	Section 5—Resignation of members	
The Chinese Wall doctrine	4.3.2.3.3	Section 6—Transfer and termination of membership	
4.3 National Association of Securities Dealers—Regulations	4.3.2.3.4	Section 7—Registration of branch offices	
4.3.1 Certificate of Incorporation		Section 8—Vote of branch offices	
4.3.1.1 Third Section—Objects or purposes	4.3.2.3.5	Section 9—District Committees' right to classify branches	
4.3.2 By-Laws	4.3.2.3.6	Article IV—Registered representatives and associated persons (NYSE Rule 345)	
4.3.2.1 Article I—Definitions	4.3.2.3.7	Section 1—Qualification requirements	
4.3.2.2 Article II—Qualifications of members and associated persons	4.3.2.4	Section 2—Application for registration	
4.3.2.2.1 Section 1—Persons eligible to become members and associated persons	4.3.2.4.1	Section 3—Notification by member to Corporation and associated person of termination: amendments to notification	
4.3.2.2.2 Section 2—Authority of Board to adopt qualification requirements	4.3.2.4.2	Section 4—Retention of jurisdiction	
Schedule C	4.3.2.4.3	Article XIII—Disciplinary proceedings	
Part I—Applications for membership		Article XIV—Powers of Board to prescribe sanctions	
Pre-membership interviews	4.3.2.4.4	Article XVI—Limitation of Powers	
Removal of restrictions imposed	4.3.2.5	Section 2—Use of name of Corporation by members	
Changes in ownership or control of existing members	4.3.2.6	Rules of Fair Practice	
Notification to the District Office of certain events	4.2.3.7	Article I—Adoption and applicability	
Part II—Registration of principals	4.2.3.7.1	Section 5—Applicability	
Definition of principal		Article II—Definitions	
Categories of principal registration	4.3.3	Article III—Rules of fair practice	
General securities principal	4.3.3.1	Section 1—Business conduct of members (NYSE Rule 401)	
Limited principals		Prompt receipt and delivery of securities	
Part III—Registration of representative	4.3.3.2	Forwarding of proxy and other materials (NYSE Rule 451)	
Definition of representative	4.3.3.3	Section 2—Recommendations to customers (NYSE Rule 405)	
Categories of representative registration	4.3.3.3.1	Fair dealing with customers	
General securities representative		Recommending speculative low-priced securities	
Limited representatives		Excessive trading activity	
Part IV—Assistant representative—order processing	4.3.3.3.2	Trading in mutual fund shares	
Part V—Disciplinary actions		Fraudulent activity	
Part VI—Persons exempt from registration		Recommending purchases beyond customer capability	
Part VII—Qualification examinations and waiver of requirements		Section 3—Charges for services performed	
Part VIII—Confidentiality of examinations		Section 9—Use of information obtained in a fiduciary capacity	
Resolution of the Board of Governors	4.3.3.3.3	Section 10—Influencing or rewarding employees of others (NYSE Rules 350 and 353)	
Failure to register personnel			
Explanation of the Board of Governors	4.3.3.3.4		
Appointment of executive representative	4.3.3.3.5		
Part XI—Registration of government securities principals			

4.3.3.3.6	Section 11—Payment designed to influence market prices, other than paid advertising		Exemption for transactions in investment company shares and unit investment trusts (NOTE: Section 28 required prior written notification to the employer member; Rule 407 requires the prior written consent of the employer)
4.3.3.3.7	Section 18—Use of fraudulent devices		
4.3.3.3.8	Section 20—Installment or partial payment sales Prohibition Hypothecation		
4.3.3.3.9	Section 25—Dealing with non-members Transactions with non-members Transactions with foreign non-members Non-member broker or dealer Interpretation of the Board of Governors Non-member of the Association Member Expelled dealer Suspended dealer Broker or dealer whose registration is revoked by the SEC Membership resigned or canceled Transactions in exempted securities Transactions on an exchange OTC transactions in securities other than "exempted securities"	4.3.3.3.13	Section 29—Variable contracts of an insurance company Application Definitions Sales charges Receipt of payment Transmittal Selling agreements Redemption
		4.3.3.3.14	Section 32—Fidelity bonds (NYSE Rule 319) Application Authority of Board Appendix C Coverage required Deductible provision Annual review of coverage Notification of change
		4.3.3.3.15	Section 35—Communications with the public (NYSE Rule 472) Definitions Advertisement Sales literature Approval and recordkeeping Filing requirements and review procedures Standards applicable to communications with the public General standards Specific standards Necessary data Recommendations Claims and opinions Hedge clauses Recruiting advertising Periodic investment plans References to regulatory organizations Identification of sources Application of SEC rules Standards applicable to the use and disclosure of the NASD member's name Guidelines regarding communications with the public about collateralized mortgage obligations (CMOs)
4.3.3.3.10	Section 26—Investment companies Application Definitions Conditions for discounts to dealers Sales charge Selling dividends Withhold orders Purchase for existing orders Refund of sales charge Repurchase from dealer Execution of investment company portfolio transactions Dealer concessions Prompt payment for investment company shares Disclosure of deferred sales charges		
4.3.3.3.11	Section 27—Supervision (NYSE Rules 342 and 405) Supervisory system Written procedures Internal inspections Written approval Qualifications investigated Applicant's responsibility Definitions Office of supervisory jurisdiction Branch office	4.3.3.3.16	Section 40—Private securities transactions Applicability Written notice Transactions for compensation Transactions not for compensation Definitions Private securities transaction Selling compensation
4.3.3.3.12	Section 28—Transactions for or by associated persons (NYSE Rule 407) Determine adverse interest Obligations of executing member Obligations of associated persons concerning an account with a member Obligations of associated persons concerning an account with an investment adviser, bank or other financial institution	4.3.3.3.17	Section 43—Outside business activity (NYSE Rule 346) (NOTE: Section 43 requires prior

	written notification by an associated person be made to a member; Rule 346 requires that a written request be made by an associated person and that the member employer provide prior written consent.)	4.3.4.3	Article IV—Imposition of sanctions and costs Section 1—Sanctions Section 2—Cost of proceedings
4.3.3.4	Article IV—Complaints (NYSE Constitution, Article IX)	4.3.4.4	Article VIII—Summary suspension Section 1—Summary action Section 2—Written notification Section 4—Hearing Section 5—Decision Section 6—Review by Board Section 8—Application to Commission for review Section 9—Application to Commission for stay of summary action
4.3.3.4.1	Section 1—Availability to customers of Certificate, By-Laws, Rules and Code of Procedure	4.3.4.5	Article X—Miscellaneous
4.3.3.4.2	Section 2—Complaints by public against members for violations of rules	4.3.5	Code of Arbitration Procedure
4.3.3.4.3	Section 3—Complaints by DBCC	4.3.5.1	Part I—Administrative provisions Section 1—Matters eligible for submission Section 4—Composition and appointment of panels
4.3.3.4.4	Section 4—Complaints by the Board of Governors	4.3.5.2	Part II—Industry and clearing controversies
4.3.3.4.5	Section 5—Reports and inspection of books for purpose of investigating complaints	4.3.5.3	Part III—Uniform code of arbitration Section 12—Required submission (NYSE Rule 600) Section 13—Simplified arbitration (NYSE Rule 601) Section 19—Designation of number of arbitrators Section 20—Composition of panels Section 23—Disclosures required of arbitrators Section 25—Initiation of proceedings Section 31—General provisions governing pre-hearing proceedings Section 35—Interpretation of provisions of code and enforcement of arbitrator rulings Section 41—Awards Paragraph 3744—Failure to act under provisions of Code of Arbitration Procedure
4.3.3.4.6	Resolution of the Board of Governors Suspension of members for failure to furnish information duly requested		
4.3.3.5	Article V—Sanctions for violation of the rules		
4.3.3.5.1	Section 1—Penalties for violation of the rules Interpretation of the Board of Governors The effect of a suspension or revocation of the registration, if any, of a person associated with a member or the barring of a person from further association with any member Resolution of the Board of Governors Notice to membership and press of suspensions, expulsions, revocations, and monetary sanctions and release of certain information regarding disciplinary history of members and their associated persons		
4.3.3.5.2	Section 2—Payment of fines, other monetary sanctions, or costs	4.4	Uniform State Law
4.3.3.5.3	Section 3—Cost of proceedings	4.4.1	Definitions under the Act
4.3.4	Code of Procedure	4.4.1.1	Agent
4.3.4.1	Article I—Application and purpose of Code Section 1—Purpose Section 2—Definitions	4.4.1.2	Broker/dealer
4.3.4.2	Article II—Disciplinary actions by DBCC the Market Surveillance Committee and others Section 1—Issuance of complaints by Committees Section 2—Form, content, notice and withdrawal of complaints Section 4—Request for hearing Section 5—Venue Section 6—Hearing panels Section 8—Decision of committee Section 10—Acceptance, waiver and consent and summary complaint procedures Section 11—Settlement procedure	4.4.2	Registration Requirements for Broker/Dealers
		4.4.2.1	Requirements
		4.4.2.2	Applications
		4.4.2.3	Standards
		4.4.2.4	Terms of registration
		4.4.2.5	Post registration provision
		4.4.3	Fraudulent and Other Prohibited Business Practices Under the Act
		4.4.3.1	Sales and purchases
		4.4.3.2	Prohibited business practices
		4.4.3.3	Regulatory oversight
		4.4.3.4	Criminal penalties

- 4.4.3.5 Civil liabilities
- 4.4.3.6 Scope of the Act
- 4.4.3.7 General provisions

5.0 COMPLIANCE WITH FINANCIAL RESPONSIBILITY RULES

5.1	Securities Act of 1934 and SEC Rules Thereunder	5.1.1.2.3	Rule 15c3-3—Customer protection— reserves and custody of securities (NYSE Rule 402)
5.1.1	Section 15—Registration and Regulation of Brokers and Dealers		Definitions
5.1.1.1	Section 15(c)(2)—Fraudulent acts or practices and fictitious accounts		Customer
5.1.1.1.1	Rule 15c2-1—Hypothecation of customers' securities (See Rule 8c-1)		Securities carried for account of a customer
	General provisions		Fully paid securities
	Definitions		Margin securities
	Exemption for cash accounts		Excess margin securities
	Exemption for cleaning house liens		Qualified security
	Exemption for certain liens on securities of non-customers		Funds carried for the account of any customer
	Notice and certification requirements		Physical possession or control
5.1.1.2	Section 15(c)(3)—Financial responsibility of brokers and dealers		Requirement to reduce securities to possession or control—timeliness
5.1.1.2.1	Rule 15c3-1—Net capital requirements for brokers and dealers (NYSE Rules 325 and 326)		Special reserve bank account for the exclusive benefit of customers
5.1.1.2.1.1	Minimum net capital requirements Broker/dealers engaging in a general securities business		Notification of banks
	Broker/dealers who do not generally carry customers' accounts		Withdrawals from the reserve bank account
	Certain additional capital requirements for market makers	5.1.2	Section 17—Accounts and Records, Reports, Examinations of Exchanges, Members and Others
5.1.1.2.1.2	Definitions and general understanding of the following terms	5.1.2.1	Section 17(a)(1)—General requirement for the maintenance of records and report filing as prescribed by SEC
	Aggregate indebtedness	5.1.2.1.1	Rule 17a-3—Records to be made by certain exchange members, brokers and dealers (general understanding of major provisions)
	Net capital including adjustments to net worth for illiquid assets		Blotters or other records of original entry
	Securities differences—treatment when computing net capital		Ledgers or other records reflecting all assets and liabilities
	Haircuts—effect on capital of proprietary positions		Ledger accounts or other records itemizing separately all activity in each cash and margin account
	Additional haircuts on securities with a limited market, unduly concentrated positions and non-marketable securities		Subsidiary ledgers
	Open contractual commitments		Securities record of each long and short position (NYSE Rule 421)
	Treatment of aged fails to deliver		Memorandum of each brokerage order given or received for the purchase or sale of securities
5.1.1.2.1.3	Debt-Equity requirements		Memorandum of each purchase and sale for the account of the firm
5.1.1.2.1.4	Withdrawal of equity capital		Copies of customer confirmations and copies of notices of all other debits and credits for accounts of customers (NYSE Rule 421)
5.1.1.2.1.5	Alternative net capital requirement		Identification data on beneficial owners of all cash and margin accounts
5.1.1.2.1.6	Appendix D—Satisfactory subordination agreements		Identification data on beneficial owners of all cash and margin account
	Definitions		Proof of money balances in all ledger accounts
	Subordinated loan agreement		
	Collateral Value		
	Secured demand note		
	Minimum requirements of subordination agreements		
	Temporary subordinations		
	Filing requirements (general)		
5.1.1.2.2	Rule 15c3-2—Use of customer free credit balances (NYSE Rule 409)		

	Questionnaire or application for employment executed by each "associated person"		requirements of Rule 15c3-1(d).
	Fingerprint records required by Rule 17f-2		Broker/dealers whose aggregate indebtedness is in excess of 1200 per centum of its net capital
	Exemptions		Broker/dealers whose net capital is less than 5% of aggregate debit items computed in accordance with the alternative net capital computation
5.1.2.1.2	Rule 17a-4—Records to be preserved by certain exchange members, brokers and dealers		Broker/dealers who fail to make and keep current the books and records specified in Rule 17a-3
	Requirement for ready accessibility of all records for two years		Broker/dealers who discover or are notified by an independent accountant that material inadequacies exist in their accounting systems
	General type of record to be maintained for six years		
	Maintenance of records with respect to associated persons		
	Preservation of required records on microfilm	5.1.2.1.7	Rule 17a-13—Quarterly security counts to be made by certain exchange members, brokers and dealers (general requirement)
	Outside service bureaus		Requirements for each calendar quarter year
5.1.2.1.3	Rule 17a-5—Reports to be made by certain brokers and dealers (NYSE Rule 418)		Persons to perform or supervise required securities counts
	Filing of monthly and quarterly reports		
	Report filed upon termination of membership interest	5.1.2.2	Section 17(b)—Inspection by commission or appropriate regulatory agency
	Customer statements	5.1.2.3	Section 17(f)—Requirements with respect to missing, lost, counterfeit or stolen securities and fingerprinting of employees of broker/dealers
	Who must furnish the statements		
	Unaudited statements to be furnished		
	Definition of customer	5.1.2.3.1	Rule 17f-1—Requirements for reporting and inquiry with respect to missing, lost, counterfeit or stolen securities
	Annual filing of audited financial statements		Definition of "reporting institution"
	Qualification of accountants		Reporting requirements
	Qualified certified public accountant		Required inquiries
	Designation of accountant		Permissive inquiries
	Independence of accountant		
	Replacement of accountant	5.2	Securities Investor Protection Act and SIPC Rules Thereunder
	Audit objectives		
	Accountant's reports—general provisions	5.2.1	Membership requirements of SIPC
	Technical requirements	5.2.2	SIPC Fund
	Representations as to the audit	5.2.3	Protection of customers
	Opinions to be expressed		Determination of need for protection
	Exceptions		Court action
	Definitions of "audit"		SIPC participation
	"accountant's report" and "certified"	5.2.4	Special provisions of a liquidation proceeding
	Accountant's report on material inadequacies		Purpose
	Extensions and exemptions		Notice and claims
	Notification of changes of fiscal year		Payment of customers
	Filing requirements		Customer related property
5.1.2.1.4	Rule 17a-8—Financial recordkeeping and reporting of currency and foreign transactions	5.2.5	SIPC advances
			Advances for customers' claims
5.1.2.1.5	Rule 17a-10—Report on income and expenses (general requirement and relation to FOCUS)	5.2.6	Other advances
		5.2.7	Discretionary advances
5.1.2.1.6	Rule 17a-11—Notification provisions for brokers and dealers		Direct payment procedure
	Broker/dealers whose net capital declines below the minimum amount required	5.2.7.1	SIPC rules
	Broker/dealers whose capital structure fails to meet the debt/equity		Accounts of separate customers
			Individual accounts
			Accounts held by executors or administrators
			Accounts held by a corporation, partnership or unincorporated association

	Trust accounts		Sharing in accounts: extent permissible
	Joint accounts		Explanation of the Board of Governors
5.2.7.2	Prohibited acts		Section 22—Disclosure of financial condition
	Failure to pay assessment or file reports		Requirement of members to furnish recent financial statement to other members
	Engaging in business after appointment of trustee or initiation of direct payment procedure		Section 31—Securities “failed to receive” and “failed to deliver”
	Concealment of assets; false statements or claims		Appendix B
5.2.7.3	Advertising by members of SIPC protection		Section 38—Regulation of activities of members experiencing financial and/or operational difficulties
	Member of displaying SIPC membership		Restrictions on member’s business expansion when its net capital falls below certain parameters for more than 15 consecutive days
5.3	National Association of Securities Dealers—Regulations		Member may be required to reduce its business
5.3.1	By-Laws		Section 39—Approval of change in exempt status under SEC Rule 15c3-3
5.3.1.1	Article VI—Dues, Assessments and Other Charges		Loss of 15c3-3(k) exemption when member conducts business that will disqualify it from the exemption without the prior written approval of the NASD
	Schedule A (general knowledge of types of income assessed and fee levied)		
	Section 3—Suspension or cancellation of membership for non-payment of dues		
5.3.2	Rules of Fair Practice		
5.3.2.1	Article III—Rules of Fair Practice		
	Section 19—Customers’ securities or funds		
	Improper use	5.3.3	Code of Procedure
	Authorization to lend—pledging or lending related to indebtedness	5.3.3.1	Article V—Limitation and approval procedures under Article III, Sections 38 and 39 of the Rules of Fair Practice
	Separate lending authorization designating securities		Procedures under Article III, Section 38 of the Rules of Fair Practice
	Segregation and identification of securities		
	Prohibition against guarantees		

RECORDKEEPING REQUIREMENTS UNDER SEC RULE 17a-3

Section/Item	Currency Requirements ^a	Maintenance Requirements ^b
1. Subparagraph (a)(1) — Blotters a) Purchases and sales of securities b) Receipts and deliveries of securities	Blotters must reflect transactions as of trade date and are to be prepared no later than the following business day.	Six (6) years, the first two (2) years in an easily accessible place.
2. Subparagraph (a)(2) a) General ledger	The general ledger must be posted as frequently as may be necessary to determine compliance with the net capital rule; but in any event not less frequently than once each month.	Six (6) years, the first two (2) years in an easily accessible place.
3. Subparagraph (a)(3) a) Customer ledger accounts	Customer ledger accounts must be posted no later than settlement date.	Six (6) years, the first two (2) years in an easily accessible place.
4. Subparagraph (a)(4) a) Securities in transfer b) Dividends and interest received c) Securities borrowed and securities loaned d) Monies borrowed and monies loaned e) Securities failed to receive and failed to deliver f) Long and short stock record differences	a-e) Subsidiary ledgers are to be no later than two days after the date of securities or monies movement. e) Fail ledgers must be posted no later than two (2) days subsequent to the settlement date. f) Stock record differences are to be posted no later than seven (7) business days after the date of discovery.	a-f) Three (3) years, the first two (2) years in an easily accessible place.
5. Subparagraph (a)(5) a) Position record	The position record must be posted no later than the business day after settlement date or the date of securities movement.	Six (6) years, the first two (2) years in an easily accessible place.
6. Subparagraphs (a)(6) and (a)(7) a) Agency sales tickets b) Principal sales tickets	These records are to be prepared before the execution of the transaction.	Three (3) years, the first two (2) years in an easily accessible place.
7. Subparagraph (a)(8) a) Confirmations b) Comparisons	These records are to be prepared no later than the business day after the transaction day.	Three (3) years, the first two (2) years in an easily accessible place.
8. Subparagraph (a)(9) a) Cash account record b) Margin account record	Customer account records must be prepared before transactions are effected in an account.	Six (6) years after the closing of such account.
9. Subparagraph (a)(10) a) Option records	Option records are to be prepared no later than the business day following the date the option was written.	Three (3) years, the first two (2) years in an easily accessible place.
10. Subparagraph (a)(11) a) Trial balance	Trial balances must be prepared not later than ten (10) business days after the end of an accounting period.	Three (3) years, the first two (2) years in an easily accessible place.
11. Subparagraph (a)(12) a) Associated person's application	An associated person's employment application should be prepared a/or prior to commencement of employment.	Three (3) years after termination of employment.

^a See Securities Exchange Act Release No. 12756, dated April 26, 1974.^b See SEC Rule 17a-4, as amended December 17, 1975.

SAMPLE QUESTIONS

The questions which appear below are similar in format and content to questions on the examination. These sample questions, however, is not intended to exactly parallel either the level of difficulty or the subject coverage of the actual examination. Their purpose here is to assist candidates and training personnel in preparing for the types of multiple choice questions which will appear on the examination.

ANSWERS TO SAMPLE QUESTIONS

1. (B)
2. (D)
3. (D)
4. (A)
5. (C)

SAMPLE TEST QUESTIONS

1. A customer wishes to purchase securities in a margin account. In order for the broker/dealer to borrow money with the margined securities, the customer must sign which of the following?
 - (A) Power of attorney
 - (B) Hypothecation agreement
 - (C) Discretionary account agreement
 - (D) Maintenance agreement
2. Under what conditions may an NASD member firm

sell "hot issue" securities to one of its non-registered employees?

- (A) The amount of the purchase is small and not disproportionate to the size of the issue.
- (B) The employee promises in writing to hold the securities for two years.
- (C) The transaction is consistent with the employee's normal investment practice.
- (D) Under no circumstances

3. Each of the following is a violation of NASD rules EXCEPT:

- (A) "backing away"
- (B) interpositioning
- (C) free-riding and withholding
- (D) marketing to the market

4. While engaged in a distribution, a managing underwriter may do each of the following EXCEPT

- (A) solicit purchases through an updated research report
- (B) accept unsolicited buy orders
- (C) effect stabilizing transactions
- (D) solicit purchase through use of a prospectus

5. Broker/dealer report on lost or stolen U.S. Government and agency securities are to be filed with the:

- (A) NASD
- (B) Designated Examining Authority
- (C) Securities Information Center
- (D) Uniform Practice Committee